

Office of the Legislative Auditor

State of Montana



Report to the Legislature

March 1992

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1991

Department of Commerce

This report contains recommendations for improving compliance and management controls. These recommendations address:

- ▶ Spending in accordance with approved operating plans.
- ▶ Requiring licensing boards to set fees commensurate with costs.
- ▶ Accuracy of federal reports.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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March 1992

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The Legislative Audit Committee
of the Montana State Legislature:


This is our financial-compliance audit report on the Department of Commerce's financial activity for fiscal years 1989-90 and 1990-91. The report contains recommendations concerning compliance with state and federal laws and regulations.

The department's written response to the audit recommendations is included in the back of the audit report. We thank the director and the department staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a light-colored rectangular background.

Scott A. Seacat
Legislative Auditor



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Office of the Legislative Auditor

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

Department of Commerce

Members of the audit staff involved in this audit were Rebecca Dorwart, Kenneth D. Erdahl, Charles V. Jensen, Wayne Kedish, Geralyn Hoffman, Maureen G. McHugh, Vickie Rauser, Catherine L. Scarff, and Cindy D. Susott.

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Appointed and Administrative Officials

Department of Commerce

Chuck Brooke, Director

Andy Poole, Deputy Director

Annie Bartos, Chief Legal Counsel

Carolyn Doering, Administrator
Management Services Division

James Kembel, Administrator
Public Safety Division

Patricia Saindon, Administrator
Transportation Division

Michael D. Ferguson, Administrator
Aeronautics Division

Don Hutchinson, Administrator
Financial Division

Robert Heffner, Administrator
Business Development Division

Newell Anderson, Administrator
Local Government Assistance Division

Dave Lewis, Executive Director
Investment Division

Jerry Hoover, Administrator
Montana Health Facilities Authority

Carl Russell, Executive Director
Montana Science and Technology Alliance

Richard Kain, Administrator, Housing Division

ZoAnn Attwood, Director
Montana State Lottery

Sam Murfitt, Board of Horse Racing

Kathleen Fleury, Coordinator of Indian Affairs

Sandra Guedes, Administrator
Montana Promotion Division

Summary of Recommendations

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

<u>Recommendation #1</u>	We recommend the department:	
	A. Record all operating plan amendments on SBAS.	7
	<u>Agency Response:</u> Concur. See page 36.	
	B. Spend in accordance with operating plans recorded on SBAS as required by state law.	7
	<u>Agency Response:</u> Concur. See page 36.	
 <u>Recommendation #2</u>	We recommend the department continue working with the licensing boards to set fees commensurate with costs in accordance with state law.	9
	<u>Agency Response:</u> Concur. See page 36.	
 <u>Recommendation #3</u>	We recommend the department prepare and distribute a county collection manual as required by state law.	10
	<u>Agency Response:</u> Conditionally concur. See page 36.	
 <u>Recommendation #4</u>	We recommend the department:	
	A. Complete reviews as required by state law.	12
	<u>Agency Response:</u> Concur. See page 36.	
	B. Evaluate the need for statutory revision of review requirements.	12
	<u>Agency Response:</u> Concur. See page 36.	
 <u>Recommendation #5</u>	We recommend the department:	
	A. Develop a comprehensive plan for the physical development of the state as required by state law.	12
	<u>Agency Response:</u> Conditionally concur. See page 37.	

Summary of Recommendations

	B. Consider seeking legislation to amend the state law.	12
	Agency Response: Conditionally concur. See page 37.	
Recommendation #6	We recommend the department draft and adopt credit union insurance rules as required by state law.	13
	Agency Response: Concur. See page 37.	
Recommendation #7	We recommend the department improve procedures to ensure the financial activity recorded on SBAS is in accordance with state law and policy.	15
	Agency Response: Concur. See page 38.	
Recommendation #8	We recommend the department improve internal controls designed to prevent duplicate payments.	16
	Agency Response: Concur. See page 38.	
Recommendation #9	We recommend the department:	
	A. Develop procedures to ensure federal reports contain accurate information.	18
	Agency Response: Concur. See page 38.	
	B. Submit federal reports in a timely manner.	18
	Agency Response: Concur. See page 38.	

Introduction

We performed a financial-compliance audit of the Department of Commerce for the two fiscal years ended June 30, 1991. The accompanying financial schedules include activity related to the Board of Housing (BOH), Board of Investments (BOI) including the Montana Office of Developmental Financing, and the Montana State Lottery, which are audited separately each fiscal year. Our office performed the audit of BOI for fiscal years 1989-90 and 1990-91. Private CPA firms under contract with our office performed the BOH and Lottery audits for each of the two fiscal years.

This audit report includes nine recommendations designed to improve the department's compliance with federal and state laws and regulations. We have disclosed the cost, if significant and practicable to obtain, of implementing these recommendations in accordance with section 5-13-307, MCA.

Background

The Department of Commerce (department) consists of several divisions as well as several entities attached to the department for administrative purposes. Those entities administratively attached include the Housing Division, the Montana Health Facilities Authority, the Montana Science and Technology Alliance, the Board of Investments, the State Lottery and the Professional and Occupational Licensing Boards. Following is a description of the department's various divisions and offices.

Director - administers the department and its divisions. Specific activities of the director's office include the County Printing Board and the Office of Legal and Consumer Affairs. In addition, the director is the chairman of the Montana State Banking Board.

Indian Affairs Coordinator - develops programs beneficial to the Indian population of Montana; coordinates efforts of state agencies, EEO, and the Affirmative Action Plan to recruit minorities for training and employment within state government; develops state government policy concerning tribal governments; and assists tribal groups in many other ways.

Introduction

Management Services Division - performs the centralized services for the department in the areas of purchasing, accounting, budgeting, payroll, personnel, training, records management, and internal department procedures. The division also provides data processing systems design, analysis, and development for activities within the department.

Public Safety Division - consists of the Building Codes, Milk Control, Professional and Occupational Licensing, and Weights and Measures Bureaus, and the Indian Affairs Coordinator. The division also licenses private employment agencies.

Transportation Division - provides technical, legal, planning, and financial assistance to transportation users, providers and local governments. The staff also make recommendations for development of Montana's transportation system. This is accomplished through various state and federal programs of technical and financial assistance designed to assist shippers, agriculture, the rail and trucking industries, inter-city passenger carriers, urban public transportation, and other transportation providers and users. The division administers the State Rail Plan and maintains Montana's eligibility for general railroad assistance funding. (Transferred to the Department of Transportation effective July 1, 1991.)

Aeronautics Division - consists of the Airport/Airways Bureau, the Safety and Education Bureau, and the Aeronautics Board. The department also administers the West Yellowstone Airport. The Airport/Airways Bureau provides technical and financial assistance to communities in airport development, communications, aviation safety and airport planning, navigational aids, and communications facilities. The Safety and Education Bureau provides for statewide aerial search and rescue, enforces state law on pilot and aircraft registration, and provides for various education and training programs. The Aeronautics Board exercises quasi-judicial and quasi-legislative powers contained in state law. These pertain to certificates of public convenience and necessity for air carriers, setting rates, and other related matters. (Transferred to the Department of Transportation effective July 1, 1991.)

Montana Board of Horse Racing - is responsible for regulating and ensuring the integrity of the state's horse racing industry, both live and simulcast, in compliance with the laws and rules related to Montana State Board of Horse Racing. The board also issues licenses and regulates racing activities at race tracks.

Montana State Lottery - is responsible for the promotion, regulation and enforcement of the Montana State Lottery. The Lottery commission is responsible for adopting administrative rules relating to the lottery.

Financial Institutions Division - consists of State Banking Board and staff who are responsible for chartering, licensing, supervising, and examining state banks, savings and loan associations, credit unions, consumer loan licensees, sales finance companies, and Montana development companies/boards.

Local Government Assistance Division - operates twelve direct service and financial assistance programs. The Community Development Bureau provides assistance to local governments, private developers, and citizens in the areas of: public works, planning and financing, land use and development regulation, capital improvement planning, local government issues and research and development. The bureau includes the Coal Board, the Hard Rock Mining Board, the Community Development Block Grant Program and the Technical Assistance Program. The division administers the Federal Section 8 Housing Program which provides decent housing to eligible low-income families and individuals. The division also administers the Local Government Audit Program which performs financial and compliance audits of Montana counties, cities, towns and special taxing districts; and the Local Government Systems Program which exists to develop, implement and maintain uniform budgetary, accounting and reporting systems for cities, towns, counties and single purpose districts. The District Court Reimbursement Program is the responsibility of this division. (District Court Program was transferred to the Supreme Court effective July 1, 1991.)

Housing Division - The Board of Housing is established to provide decent housing in the state within the financial capabilities of lower income persons and families. Public moneys are made available through the issuance of revenue bonds to assist private enterprise and governmental agencies in meeting critical housing needs.

Montana Health Facilities Authority - issues revenue bonds and notes to finance capital projects for public and private nonprofit health facilities at borrowing rates below those otherwise available.

Montana Science and Technology Alliance - created to stimulate economic development in the state by providing financial

Introduction

support in the form of loans to organizations and companies seeking to develop technology-based businesses.

Board of Investments - has sole authority to invest funds in accordance with the Montana Constitution and statutory requirements. The Board of Investments administers the Coal Tax Loan Program, the Montana Capital Companies Program, the Industrial Development Revenue Bond Program, and the Municipal Finance Program. The board manages programs which make loans, provide for the issuance or backing of bonds and issue tax credits to encourage development in Montana.

Business Development Division - coordinates the department's economic development efforts; provides the direct technical assistance component of the state economic development efforts through the Small Business Development Center and the International Trade Office; provides funding for community supported economic development efforts through the Community Development Block Grant program; publicizes and represents Montana to firms planning relocations or expansion; and provides comprehensive economic, demographic, and business data through the Office of Research and Information Services.

Montana Promotion Division - promotes Montana as a vacation destination and as a film location for motion pictures and commercials. The division provides public information, serves as a liaison with the private sector, and produces publications, radio, television, and outdoor advertising.

Reorganization

The department experienced some organizational changes as a result of actions taken by the 52nd Legislature. These changes did not impact the financial activity reported on pages 22 through 32. The Aeronautics and Transportation Divisions were moved to the Department of Transportation effective July 1, 1991. The District Court Reimbursement Program was moved to the Supreme Court effective July 1, 1991. The 52nd Legislature authorized three new professional and occupational licensing boards: Board of Respiratory Care, Board of Alternative Health Care, and Board of Real Estate Appraisers.

Prior Audit Recommendations

Prior Audit Recommendations

We performed the audit of the department for the two fiscal years ended June 30, 1989. The prior audit report contained six recommendations still applicable to the department. Of those recommendations, the department implemented three. Recommendations not fully implemented deal with the department's spending in accordance with approved operating budgets, requiring licensing boards to set fees commensurate with costs and preparing a county collections manual. These three recommendations are again included in the report and discussed on pages 6, 7, and 9, respectively.

Findings and Recommendations

State Compliance

As discussed on pages one through four, the department has many diversified functions which are governed by extensive laws and regulations. We review selected state laws and regulations pertaining to the department and found areas where improvements could be made. The following report sections discuss these areas.

Compliance with Appropriations Law

According to House Bill 100, Laws of 1989, "Expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority." The Office of Budget and Program Planning (OBPP) is the approving authority for the Department of Commerce. House Bill 100 defines substantial compliance as no expenditure category in an approved budget may be overspent by more than 5 percent. House Bill 100 explains each operating budget must include expenditures for each program detailed at least by the categories of personal services, operating expenses, equipment, benefits and claims, grants, transfers, and local assistance. State agencies are required to record operating budgets or plans and any approved changes on the Statewide Budgeting and Accounting System (SBAS), the official financial records.

We compared each program's operating budget recorded on SBAS to actual expenditures recorded on SBAS at fiscal year-end 1989-90 and 1990-91. We found nine programs in fiscal year 1989-90 where the department did not record the OBPP approved operating plan amendments on SBAS. Therefore, the official records do not document compliance with the above criteria. The department overspent individual categories within two programs by more than 5 percent in fiscal year 1990-91. The department did not prepare operating plan amendments for these two programs. The department did not overspend any of its program appropriations in total either fiscal year.

Management Services Division personnel stated they review SBAS throughout the year and prepare the necessary operating plan amendments to ensure expenditures fall within the

Findings and Recommendations

"substantial compliance" limitations. However, department personnel said the fiscal year 1989-90 operating plan amendments were not recorded on SBAS by fiscal year-end due to the time constraints and other responsibilities during fiscal year-end. The department did not prepare and record fiscal year 1990-91 operating plan amendments on SBAS for expenditures occurring during the fiscal year-end period due to time constraints.

Recommendation #1

We recommend the department:

- A. Record all operating plan amendments on SBAS.**
- B. Spend in accordance with operating plans recorded on SBAS as required by state law.**

Fees Commensurate with Costs

According to section 37-1-134, MCA, professional and occupational licensing (POL) boards are to set their fees reasonably commensurate with the costs of their programs. In our prior audit report, we recommended the department require the licensing boards to comply with state law and set fees commensurate with costs. We reviewed the revenues, expenditures and fund balances of all the professional and occupational licensing boards for fiscal year 1989-90 and 1990-91 to determine if the licensing boards are complying with state law.

Our review identified 18 boards in fiscal year 1989-90 and 17 boards in fiscal year 1990-91 whose revenues exceeded expenditures causing an increase in the boards' fund balances. We also found 23 boards in fiscal year 1989-90 and 21 boards in fiscal year 1990-91 whose fund balances exceeded their current year's expenditures. The following schedule identifies these boards, their fund balances, the difference between revenues and expenditures for the two fiscal years under audit, and the ratio of fund balances to fiscal year 1990-91 expenditures.

Findings and Recommendations

Table 1

Selected Professional and Occupational Licensing Boards

Board	Amount by which Revenues Exceed Expenditures		Fund Balance June 30,		Ratio of Fund Balance to Fiscal Year 1990-91 Expenditures
	FY 1990	FY 1991	1990	1991	
Outfitters	\$49,613	\$12,434	\$182,726	\$195,435	1.66
Speech Pathologists	873	3,038	15,706	18,743	2.75
Radiologic Technicians	11,784	11,131	71,335	82,447	5.63
Physical Therapists	11,172	6,382	73,064	79,446	4.81
Nursing Home Administrators	8,010	8,120	41,163	49,284	3.29
Sanitarians	(558)	(32)	22,492	22,460	3.38
State Electrical Board	(20,246)	(4,397)	108,968	104,572	1.43
Architects	3,988	926	85,640	86,566	2.28
Morticians	2,761	3,225	37,025	40,250	1.93
Professional Engineers and Land Surveyors ¹	60,448	(20,194)	192,095	171,900	2.06
Cosmetology	(42,934)	(12,007)	418,044	406,037	2.88
Private Security Patrolmen and Investigators	(14,305)	2,181	62,732	64,912	3.57
Dentists	(6,299)	(5,416)	143,324	137,908	1.53
Optometrists	(2,978)	(6,218)	50,764	44,546	1.56
Nursing	63,824	31,440	386,301	417,766	1.63
Veterinarians	(379)	1,625	29,336	30,961	1.26
Social Workers	36,416	27,766	119,413	147,179	6.92
Polygraph Licensing	906	833	4,749	5,582	6.19
Psychologists	4,569	1,611	25,471	27,081	1.29
Hearing Aid Dispensers	1,977	4,787	14,889	19,676	2.16
Medical Examiners	68,714	70,786	303,646	374,432	1.52
Occupational Therapists	4,141	4,972	26,610	31,582	5.10
Passenger Tramways	13,983	16,210	65,471	81,682	4.01

Source: Compiled by the Office of the Legislative Auditor from Department of Commerce records.

Professional and Occupational Licensing Bureau personnel stated spending curtailments over the past two biennia have increased fund balances since the boards were not allowed to spend all the revenue collected. According to POL personnel, this had the effect of preventing the boards from putting in place programs they believed necessary to improve the quality of regulation and also contributed to an increase in cash balances. POL personnel also indicated eleven boards have outlined plans to decrease cash balances through expanded programs or anticipated litigation costs during the next biennium.

We noted seven professional boards have reduced fees and three boards have increased fees during our audit period. The boards

Findings and Recommendations

listed above should review their fee structure and, where necessary, decrease their licensing fees to be commensurate with costs in accordance with state law. Department personnel have indicated they will continue to work with the boards to achieve compliance with this law.

Recommendation #2

We recommend the department continue working with the licensing boards to set fees commensurate with costs in accordance with state law.

County Collections Manual

We performed a review of the county collection process for revenues collected by the counties on behalf of the state in January 1986. Counties submit monthly reports detailing the money collected and remitted on behalf of the state. We recommended the legislature assign responsibility for the county collection process to a designated state agency and this agency create a comprehensive manual of procedures for the collection of state revenues. Section 7-6-2141, MCA, requires the Department of Commerce to prepare and distribute a county collections manual to county treasurers, setting forth the procedures and forms to be used by the counties in collecting revenue for the state. The manual must be revised at least biennially.

During our audit we noted the department has not prepared a county collections manual. The law referenced above was enacted by the 50th Legislature in fiscal year 1987 and this issue was addressed in the two prior audits of the department. Department personnel stated they have not prepared a county collections manual. The department has requested spending authority during the budget process, but the request was not included in the budget presented to the legislature. As a result, there is still no comprehensive manual of procedures for the collection of revenue by counties on behalf of the state.

Findings and Recommendations

Department personnel believe they have complied with the law to the extent possible through the counties' use of the Montana Budget, Accounting and Reporting System (BARS). BARS is updated periodically and has been in use for approximately 14 years. This chart of accounts prescribes and defines the accounting codes and the statutory references for all funds collected by local governments. We do not believe BARS meets the intent of the law as it is a chart of accounts and not a comprehensive procedures manual. A comprehensive procedures manual would assist counties in collecting and distributing the state revenue for which they are responsible. Counties remitted \$79 million to the state in fiscal year 1989-90. These receipts were distributed to 61 separate accounts. During fiscal year 1990-91, counties remitted \$136 million which was distributed to 63 separate accounts.

Department personnel estimated costs of preparing and maintaining a county collections manual. The first year's cost estimate is \$52,900 and includes 1.25 FTE. The second year's cost estimate is \$44,000 which includes 1 FTE. Costs for subsequent fiscal years approximate \$37,350 and include .75 FTE. These estimates were developed October 1989. The department is revising this estimate.

Recommendation #3

We recommend the department prepare and distribute a county collection manual as required by state law.

Annual Review Requirements

The department is required by state law to complete reviews of counties, cities, banks, credit unions, and various other entities. The following instances are examples of noncompliance with three state laws related to review requirements.

1. Section 7-6-4113, MCA, requires each city or town clerk to submit an annual financial statement to the department. If

Findings and Recommendations

the city or town fails to submit annual financial statements within 120 days after close of the fiscal year, the department is required to compile the financial statements of the city or town. Costs of the compilation will be paid by the city or town under the provisions of sections 2-7-503(4) and (5), MCA. We noted 9 towns for fiscal year 1988-89 and 12 towns for fiscal year 1989-90, with populations under 300, did not submit their annual financial statements to the department within the required time frame.

Department personnel stated the cost of this compilation is difficult to determine because the condition of the accounting records is unknown. The cost would vary with the condition of the individual entity's accounting records.

2. The department does not perform annual examinations of the 18 consumer loan offices in Montana. Section 32-5-403, MCA, states the department shall audit all consumer loan offices annually. Department personnel stated they are completing audits of consumer loan offices but do not have the staff to audit every consumer loan office each year. Department personnel estimate the cost to perform 18 annual examinations to be \$5,400. The audit costs are born by each consumer loan office.
3. The department does not examine all trusts, trust funds, and trust and estate accounts during their regular audits of trust companies. Section 32-1-217, MCA, requires all accounts be examined. Department personnel said it would be impossible to examine all trust accounts during an audit due to the large number of accounts and limited staff. Therefore, they select a random sample of accounts to examine. Department personnel could not estimate the cost to examine all trust accounts since the accounts number in the thousands.

Since the department has not been able to fully comply with these requirements with existing resources, management should consider whether additional resources or statutory revisions are more appropriate. The department should establish procedures to ensure completion of all reviews required by state law.

Findings and Recommendations

Recommendation #4

We recommend the department:

- A. Complete reviews as required by state law.
- B. Evaluate the need for statutory revision of review requirements.

Comprehensive State Plan for Physical Development

The department is charged with developing a comprehensive plan for the physical development of the state by section 90-1-102, MCA. The statute does not define the terms "comprehensive plan" or "physical development." Therefore, there is no clear direction to the department.

Between 1967 and 1981 the department received federal funding to develop a comprehensive state plan for physical development, but did not complete such a plan. Currently, the department provides technical assistance to local governments for community planning, development, and finance. Department management indicated they believe this program, along with other development-type programs, may meet the intent of section 90-1-102, MCA. The department should develop the required plan or seek legislation to clarify the responsibilities for physical development of the state.

Recommendation #5

We recommend the department:

- A. Develop a comprehensive plan for the physical development of the state as required by state law.
- B. Consider seeking legislation to amend the state law.

Credit Union Insurance

Section 32-3-201, MCA, requires the department to issue rules prescribing the minimum amount of surety bond coverage and casualty, liability, and fire insurance required of credit unions in relation to their exposure to risk. The department has not issued these rules but instead follows federal insurance rules. The department should draft and adopt rules to ensure the state's credit unions have adequate safeguards against losses. One way to do this is to incorporate the federal rules by reference.

Recommendation #6

We recommend the department draft and adopt credit union insurance rules as required by state law.

Accounting Issues

Officials and legislators use the department's financial information to manage operations and establish funding levels for the department. The department uses the Statewide Budgeting and Accounting System (SBAS) to record its financial activity. Section 17-1-102(5), MCA, states: "All state agencies, . . . shall input all necessary transactions to the accounting system . . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable, in accordance with generally accepted accounting principles (GAAP)." The Department of Administration, Accounting and Management Support Division, establishes state accounting policy as outlined in the Montana Operations Manual (MOM). State accounting policy requires all financial transactions recorded on SBAS to comply with state law.

During our audit, we noted the following instances where the activity recorded on SBAS does not comply with state accounting policy and law. Where federal funds are involved, we noted the Catalog of Federal Domestic Assistance (CFDA) number assigned by the federal government.

Findings and Recommendations

Accounting Records

1. The department recorded an expenditure accrual of \$500,000 for the transportation program at fiscal year-end 1990-91. The accrual was coded as a grant expenditure from federal sources instead of contracted services.

The department received a \$90,000 refund from a county community development block grant (CDBG) (CFDA #14.228) project in fiscal year 1989-90. The funds were returned from a payment made to the county in fiscal year 1988-89. The department recorded the refund as a current year expenditure abatement instead of a prior year expenditure abatement.

Department personnel said the problems we noted were the result of human error. State accounting policy requires expenditure transactions to be properly coded to ensure the accuracy and usefulness of information on the accounting records.

2. In our prior audit report, we recommended the department record on SBAS all accounts receivable, which are primarily tenant damage claims, of Section 8 Housing Assistance (CFDA #14.156). At fiscal year-end 1989-90 the department made no adjustment to the Section 8 accounts receivable. At fiscal year-end 1990-91 the department adjusted the Section 8 accounts receivable to reflect the proper amount calculated and documented by the department. However, in our review of the supporting documentation, we found two files out of six tested that did not agree to the accounts receivable listing. The Montana Operations Manual Section 2-1100.20 requires all bona fide receivables be recorded on the accounting records.

Section 8 personnel stated they did not adjust the fiscal year-end 1989-90 accounts receivable because an upgrade of the computer software removed the possibility of preparing a summary receivable listing. They did not consider it cost beneficial to create a manual listing at that time. In response to the errors noted in the fiscal year 1990-91 accounts receivable listing, Section 8 personnel said they were oversights.

Without all financial activity properly recorded on the state's accounting records, the quality, consistency, and comparability of the resulting financial information is affected. Since the

Findings and Recommendations

department is responsible for all information recorded on its accounting records, department personnel should strengthen the review procedures to ensure information recorded is accurate and complete.

Recommendation #7

We recommend the department improve procedures to ensure the financial activity recorded on SBAS is in accordance with state law and policy.

Duplicate Payments

We reviewed 82 cancelled warrants processed over a three-month period in fiscal year 1990-91. The department may cancel warrants for the following reasons: if the payee name or address is incorrect, the dollar amount is wrong, the payee is no longer eligible for the payment, or the bill has already been paid by a previous warrant. We found nine warrants cancelled because of duplicate payments. Payees returned the warrants which amounted to \$925. The department does not always use the original invoice as supporting documentation for warrants issued. The department's system for paying vendors allows for duplicate payments. For example, we found instances of duplicate payments when the department paid a vendor statement which included an invoice that was already paid.

Management services personnel explained they have an informal internal control system designed to detect duplicate billing before warrants are issued to the vendor. They also require the program manager to approve invoices for payment.

Because the department processes approximately 15,000 warrants each year, the department should improve its control system. Management Memo 2-84-3 requires state agencies to review and approve invoices prior to payment. In addition, state policy states, "Payments should be supported by original invoice. If the original invoice is considered or proven lost, the vendor should

Findings and Recommendations

submit another invoice, certified to be an 'original'." The department should formally adopt the provisions in Management Memo 2-84-3.

Recommendation #8

We recommend the department improve internal controls designed to prevent duplicate payments.

Federal Compliance

We tested compliance with federal laws for federal assistance programs administered by the department. We designed our procedures to satisfy the requirements of the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128 as applied to the state of Montana's reporting entity. We specifically tested compliance and expenditure allowability for grants funded by the U.S. Department of Housing and Urban Development (HUD) for the Section 8 Housing Program (CFDA #14.156) and the Community Development Block Grant (CDBG) (CFDA #14.228). We also tested the reasonableness of the Statements of Federal Land Payments for the federal fiscal years ending September 30, 1989 and 1990, which are submitted to the U.S. Department of the Interior, Bureau of Land Management, under the Payment in Lieu of Taxes Act. The following three sections discuss our concerns relating to federal reports prepared by the department.

Statements of Federal Land Payments

The Payment in Lieu of Taxes Act (PILT), Section 6903(b)(2), specifies that the Chief Executive Officer of each state shall furnish the Secretary of the Interior with a listing of the amounts received by counties under the 11 revenue sharing laws of the act.

During our review of the Statements of Federal Land Payments provided to the Secretary of the Interior, we noted the department reported the incorrect amount for several counties in both

Findings and Recommendations

federal fiscal years. The largest mistake resulted in Wheatland County receiving an excess of \$59,749 in PILT funds and Valley County being shorted by \$37,955 for the period ending September 30, 1989.

Department personnel stated the information was misread and reported for the wrong county when preparing the statement. The error was not found before the report was sent to the Secretary of the Interior. The department currently has no review procedures to ensure the Statements of Federal Land Payments contain the correct amounts for each county.

Indirect Cost Plan

Federal regulations allow state agencies to request reimbursement for indirect costs necessary for the administration of federal programs. The cost principles governing the allowability of indirect costs under government awards is included in OMB Circular A-87. The costs included in the indirect cost plan should include costs incurred within the period.

The department has an approved indirect cost plan and a system to request reimbursement. However, the department's indirect cost plan proposal contained financial data from the wrong fiscal year and omitted expenditures from one source. The indirect cost rate proposal would not have changed because the two errors offset each other. We do not question any program costs. Department management indicated they have strengthened the review process to detect and correct errors in the indirect cost plan before submitting the report.

Performance and Evaluation Reports

The department prepares a Performance and Evaluation Report annually on the Community Development Block Grant award (CFDA #14.228). This report contains general CDBG information for the projects in process. During our review of the fiscal year 1989-90 report, we noted the submission date was October 25, 1990. Federal regulations, 24 CFR 570.498, state the report shall be submitted no later than October 1 of each fiscal year. Department personnel said employee turnover caused information to be misplaced and therefore, the report was not

Findings and Recommendations

completed by October 1. The department said they had a verbal extension of 30 days from the federal agency. The fiscal year 1990-91 report was submitted on time.

Recommendation #9

We recommend the department:

- A. Develop procedures to ensure federal reports contain accurate information.**
- B. Submit federal reports in a timely manner.**

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

We issued an unqualified opinion on the Schedule of Changes in Fund Balances, the Schedules of Budgeted Revenue - Estimate and Actual, and the Schedules of Budgeted Program Expenditures and Transfers Out by Object and Fund - Budget and Actual. This means the schedules are fairly stated in all material respects and the user may place reliance on the information presented and the supporting accounting records.



STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Department of Commerce for each of the two fiscal years ended June 30, 1990 and 1991, as shown on pages 22 through 32. The information contained in these financial schedules is the responsibility the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Commerce for each of the two fiscal years ended June 30, 1990 and 1991, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

October 18, 1991

DEPARTMENT OF COMMERCE
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	General Fund	Special Revenue Funds	Debt Service Funds	Enterprise Funds	Internal Service Funds	Expendable Trust Funds	Nonexpendable Trust Funds
FUND BALANCE: July 1, 1989	\$ 0	\$ 8,116,600	\$ 1,566,817	\$ 58,111,680	\$ 545,894	\$ 2,839,738	\$ 67,116,923
ADDITIONS							
Fiscal Year 1989-90							
Budgeted Revenue & Transfers In	8,658,294	23,526,092		23,750,808	4,076,463	219,075	6,433,631
Nonbudgeted Revenue & Transfers In ²	3,373	6,613		58,957,783	585		8,976,427
Prior Year Revenue Adjustments	93			544			556,629
Prior Year Expenditure Adjustments	22,316				1,588		
Cash Transfers In		10,507,288	8,464,453				5,158,161
Direct Entries to Fund Balance		18,830		219,523			
Fiscal Year 1990-91							
Budgeted Revenue & Transfers In	7,951,808	25,186,728		26,106,494	4,090,144	191,035	5,610,408
Nonbudgeted Revenue & Transfers In	173,620	1,978		60,393,488	782		6,207,217
Cash Transfers In		10,375,728	6,259,518				
Prior Year Revenue		(1,507)					
Prior Year Revenue Adjustments		42,145					
Direct Entries to Fund Balance		4,047,965 ¹			6,707		
Prior Year Expenditure Adjustments				2,846			
Prior Year Transfers In Adjustments						(15)	
Total Additions	16,809,504	73,711,860	14,723,971	169,431,486	8,176,269	410,095	32,942,473
REDUCTIONS							
Fiscal Year 1989-90							
Budgeted Expenditures & Transfers Out	5,321,038	31,356,864		23,334,537	3,942,644	441,647	5,455,787
Nonbudgeted Expenditures & Transfers Out ²			8,778,470	54,366,507	25,354		1,056,465
Support to State of Montana	3,363,038						
Prior Year Expenditure Adjustments		351,305		6,691			
Prior Year Revenue Adjustments		613,438			4,784		
Cash Transfers Out					28,080		
Nonbudgeted Prior Year Transfer Out Adjustments							(121,498) ¹
Direct Entries to Fund Balance							14,487,765
Fiscal Year 1990-91							
Budgeted Expenditures & Transfers Out	5,619,900	40,176,427		25,630,442	4,046,960	643,812	5,486,911
Prior Year Expenditure Adjustments	23,291	16,881			1,626		
Prior Year Revenue Adjustments	58,749			93,284	750		1,470
Direct Entries to Fund Balance	20,476			214,078			
Support to State of Montana	2,403,012						
Nonbudgeted Expenditures & Transfers Out		(780,000)	6,207,218	56,835,001	54,195		18,078
Prior Year Expenditures		(9)		(4)			
Nonbudgeted Prior Year Expenditure Adjustments				(2,943)	(6,945)		
Cash Transfers Out					31,439		
Prior Year Transfers Out Adjustments							(1,600)
Total Reductions	16,809,504	71,734,906	14,985,688	160,477,593	8,128,887	1,085,459	26,383,378
FUND BALANCE: June 30, 1991	\$ 0	\$ 10,093,554	\$ 1,305,100	\$ 67,065,573	\$ 593,276	\$ 2,164,374	\$ 73,676,018

¹See note 5 on page 30.

²See note 4 on page 30.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 32.

DEPARTMENT OF COMMERCE
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Licenses and Permits	Charges For Services	Investment Earnings	Fines & Forfeits	Sale of Documents & Merchandise	Other Financing Sources	Taxes	Rentals, Leases & Royalties	Grants, Contracts & Donations	Federal	Miscellaneous	Federal Indirect Cost Recoveries	Total
GENERAL FUND													
Estimated Revenue	\$3,257,650	\$ 17,000	\$ 221,339	\$ 1,000	\$ 4,000	\$3,700,000							\$ 7,200,989
Actual Revenue	<u>3,172,767</u>	<u>27,843</u>	<u>82,813</u>	<u>0</u>	<u>4,509</u>	<u>4,663,876</u>							<u>7,951,808</u>
Collections Over (Under) Estimate	\$ <u>(84,883)</u>	\$ <u>10,843</u>	\$ <u>(138,526)</u>	\$ <u>(1,000)</u>	\$ <u>509</u>	\$ <u>963,876</u>							\$ <u>750,819</u>
SPECIAL REVENUE FUND													
Estimated Revenue	\$2,469,397	\$2,209,536	\$ 513,196	\$ 7,250	\$ 31,908		\$290,797	\$ 2,000	\$441,500	\$ 37,090,764			\$ 43,056,348
Actual Revenue	<u>2,358,031</u>	<u>2,312,544</u>	<u>455,756</u>	<u>9,093</u>	<u>26,226</u>		<u>297,947</u>	<u>1,650</u>	<u>389,528</u>	<u>19,335,953</u>			<u>25,186,728</u>
Collections Over (Under) Estimate	\$ <u>(111,366)</u>	\$ <u>103,008</u>	\$ <u>(57,440)</u>	\$ <u>1,843</u>	\$ <u>(5,682)</u>		\$ <u>7,150</u>	\$ <u>(350)</u>	\$ <u>(51,972)</u>	\$ <u>(17,754,811)</u> ¹			\$ <u>(17,869,620)</u>
ENTERPRISE FUNDS													
Estimated Revenue	\$ 4,000	\$2,843,231	\$ 63,500		\$27,060,000	\$ 18,000		\$ 46,000			\$ 4,000		\$ 30,038,731
Actual Revenue	<u>4,350</u>	<u>2,051,931</u>	<u>69,100</u>		<u>23,931,378</u>	<u>7,171</u>		<u>31,303</u>			<u>11,261</u>		<u>26,106,494</u>
Collections Over (Under) Estimate	\$ <u>350</u>	\$ <u>(791,300)</u>	\$ <u>5,600</u>		\$ <u>(3,128,622)</u> ¹	\$ <u>(10,829)</u>		\$ <u>(14,697)</u>			\$ <u>7,261</u>		\$ <u>(3,932,237)</u>
INTERNAL SERVICE FUNDS													
Estimated Revenue		\$3,647,927			\$ 2,700	\$ 147,078						\$756,808	\$ 4,554,513
Actual Revenue		<u>3,217,516</u>			<u>2,056</u>	<u>147,078</u>						<u>723,494</u>	<u>4,090,144</u>
Collections Over (Under) Estimate		\$ <u>(430,411)</u>			\$ <u>(644)</u>							\$ <u>(33,314)</u>	\$ <u>(464,369)</u>
EXPENDABLE TRUST FUNDS													
Estimated Revenue			\$ 204,330			\$ 23,800							\$ 228,130
Actual Revenue			<u>172,958</u>			<u>18,077</u>							<u>191,035</u>
Collections Over (Under) Estimate			\$ <u>(31,372)</u>			\$ <u>(5,723)</u>							\$ <u>(37,095)</u>
NONEXPENDABLE TRUST FUNDS													
Estimated Revenue		\$ 97,500	\$5,654,332			\$ 48,000							\$ 5,799,832
Actual Revenue		<u>(5,578)</u>	<u>5,615,986</u>			<u>0</u>							<u>5,610,408</u>
Collections Over (Under) Estimate		\$ <u>(103,078)</u>	\$ <u>(38,346)</u>			\$ <u>(48,000)</u>							\$ <u>(189,424)</u>

¹See note 8 on page 31.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 32.

DEPARTMENT OF COMMERCE
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Licenses and Permits	Charges For Services	Investment Earnings	Fines & Forfeits	Sale of Documents & Merchandise	Other Financing Sources	Taxes	Rentals, Leases & Royalties	Grants, Contracts Donations	Federal	Miscellaneous	Federal Indirect Cost Recoveries	Total
GENERAL FUND													
Estimated Revenue	\$3,054,550	\$ 32,100	\$ 222,909	\$4,500	\$ 2,500	\$3,700,000							\$ 7,016,559
Actual Revenue	<u>3,084,783</u>	<u>20,302</u>	<u>112,740</u>	<u>4,000</u>	<u>1,031</u>	<u>5,435,438</u>							<u>8,658,294</u>
Collections Over (Under) Estimate	\$ <u>30,233</u>	\$ <u>(11,798)</u>	\$ <u>(110,169)</u>	\$ <u>(500)</u>	\$ <u>(1,469)</u>	\$ <u>1,735,438</u>							\$ <u>1,641,735</u>
SPECIAL REVENUE FUND													
Estimated Revenue	\$2,459,942	\$2,164,855	\$ 623,600	\$5,500	\$ 31,920		\$247,186	\$ 1,400	\$314,200	\$ 34,256,600			\$ 40,105,203
Actual Revenue	<u>2,387,736</u>	<u>2,350,104</u>	<u>570,403</u>	<u>7,406</u>	<u>42,215</u>		<u>201,709</u>	<u>1,738</u>	<u>426,506</u>	<u>17,538,275</u>			<u>23,526,092</u>
Collections Over (Under) Estimate	\$ <u>(72,206)</u>	\$ <u>185,249</u>	\$ <u>(53,197)</u>	\$ <u>1,906</u>	\$ <u>10,295</u>		\$ <u>(45,477)</u>	\$ <u>338</u>	\$ <u>112,306</u>	\$ <u>(16,718,325)</u> ¹			\$ <u>(16,579,111)</u>
ENTERPRISE FUNDS													
Estimated Revenue	\$ 4,000	\$2,765,754	\$ 38,500		\$17,500,000	\$ 20,000		\$ 46,000			\$4,000		\$ 20,378,254
Actual Revenue	<u>4,150</u>	<u>2,152,228</u>	<u>41,068</u>		<u>21,503,798</u>	<u>11,340</u>		<u>33,671</u>			<u>4,553</u>		<u>23,750,808</u>
Collections Over (Under) Estimate	\$ <u>150</u>	\$ <u>(613,526)</u>	\$ <u>2,568</u>		\$ <u>4,003,798</u> ¹	\$ <u>(8,660)</u>		\$ <u>(12,329)</u>			\$ <u>553</u>		\$ <u>3,372,554</u>
INTERNAL SERVICE FUNDS													
Estimated Revenue		\$3,389,045			\$ 3,700	\$ 132,335						\$733,615	\$ 4,258,695
Actual Revenue		<u>3,181,117</u>			<u>1,607</u>	<u>139,550</u>						<u>754,189</u>	<u>4,076,463</u>
Collections Over (Under) Estimate		\$ <u>(207,928)</u>			\$ <u>(2,093)</u>	\$ <u>7,215</u>						\$ <u>20,574</u>	\$ <u>(182,232)</u>
EXPENDABLE TRUST FUNDS													
Estimated Revenue			\$ 199,330			\$ 17,500							\$ 216,830
Actual Revenue			<u>198,726</u>			<u>20,349</u>							<u>219,075</u>
Collections Over (Under) Estimate			\$ <u>(604)</u>			\$ <u>2,849</u>							\$ <u>2,245</u>
NONEXPENDABLE TRUST FUNDS													
Estimated Revenue		\$ 77,000	\$6,755,032			\$ 48,000							\$ 6,880,032
Actual Revenue		<u>70,720</u>	<u>6,362,911</u>			<u>0</u>							<u>6,433,631</u>
Collections Over (Under) Estimate		\$ <u>(6,280)</u>	\$ <u>(392,121)</u>			\$ <u>(48,000)</u>							\$ <u>(446,401)</u>

¹See note 8 on page 31.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 32.

DEPARTMENT OF COMMERCE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Public Safety Admin.	Weight & Measures Bureau	Financial Division	Milk Control Bureau	Professional & Occupational Licensing Bureau	Aeronautics Division	Transportation Division	Business Development Division	Montana Promotion Division	Housing Assistance Bureau	Community Development Bureau	Office of Research & Information Service	Local Government Services- Audit	Local Government Services- Systems	Local Government Assistance Administration	Building Codes Bureau	Indian Affairs Coordinator	Health Facilities Authority	Montana Science & Tech Alliance	Montana Board of Housing	Investments Division	Montana State Lottery	Board of Horse Racing	Director/ Management Services	Total
PERSONAL SERVICES																									
Salaries	\$46,627	\$211,921	\$471,015	\$126,294	\$ 648,237	\$ 237,001	\$ 359,566	\$ 573,675	\$ 360,693	\$ 180,989	\$ 248,212	\$ 136,830	\$ 547,595	\$ 119,181	\$ 78,395	\$ 677,458	\$ 49,999	\$ 38,382	\$ 155,445	\$ 279,228	\$ 843,649	\$ 782,269	\$ 89,763	\$575,023	\$ 7,837,457
Other Compensation			500	2,600	69,667	3,500					4,800					6,830		1,550	4,075	6,300	9,050	2,184	2,700		113,726
Employee Benefits	8,685	54,773	103,363	29,496	145,806	73,849	75,880	121,819	80,357	40,804	53,205	30,715	122,920	22,849	15,164	166,920	10,674	7,459	28,338	64,749	167,070	177,331	15,446	116,573	1,734,255
Total	<u>55,312</u>	<u>266,694</u>	<u>574,878</u>	<u>158,390</u>	<u>863,710</u>	<u>314,350</u>	<u>435,446</u>	<u>695,494</u>	<u>441,050</u>	<u>221,793</u>	<u>306,217</u>	<u>167,545</u>	<u>670,515</u>	<u>142,030</u>	<u>93,559</u>	<u>851,198</u>	<u>60,673</u>	<u>47,391</u>	<u>187,858</u>	<u>350,277</u>	<u>1,019,769</u>	<u>961,784</u>	<u>107,909</u>	<u>691,596</u>	<u>9,685,438</u>
OPERATING EXPENSES																									
Other Services	224	6,617	16,845	20,473	398,950	150,459	430,369	400,033	757,068	15,614	53,122	14,057	10,681	22,382	79	24,907	8,285	33,752	106,335	782,278	109,453	5,254,875	38,125	72,378	8,727,361
Supplies & Materials	130	22,243	9,331	2,220	30,773	37,322	12,449	37,706	25,558	17,119	7,293	13,136	8,072	3,394		32,571	2,137	1,395	5,757	5,629	19,632	45,827	2,755	11,818	354,267
Communications	610	6,486	10,810	7,950	107,379	33,002	12,276	73,662	2,782,614	16,605	15,646	6,881	15,403	5,800	1,275	33,324	7,717	4,912	17,435	21,791	41,488	691,933	7,275	17,550	3,939,824
Travel	64	29,027	85,914	25,426	167,288	22,352	48,041	147,232	112,897	9,606	29,053	3,420	70,171	21,337		55,702	6,842	10,488	34,974	14,871	23,389	35,053	20,296	14,898	988,539
Rent	1,342	9,668	18,096	6,118	69,854	14,783	14,421	53,688	28,307	10,171	15,020	8,645	17,141	5,041		15,936	6,156	1,178	17,135	30,154	72,913	82,440	3,510	20,899	522,586
Utilities		1,380				17,489		136					238	104								13,773			33,274
Repair & Maintenance	100	28,170	3,436	2,909	17,844	24,655	3,526	14,602	29,029	37,738	8,758	3,928	8,005	3,096		20,600	3,272	176	3,531	34,211	29,644	77,762	2,375	11,681	369,048
Other Expenses	4,556	28,039	62,532	19,859	895,788	34,658	52,508	110,189	127,439	33,946	95,527	22,188	72,015	38,198	7,672	159,301	5,977	10,417	22,828	40,484	98,076	11,790,954	17,975	14,428	13,765,554
Goods Purchased For Resale						14,106										5,860					577,564				597,530
Total	<u>7,026</u>	<u>131,630</u>	<u>206,964</u>	<u>84,955</u>	<u>1,687,876</u>	<u>348,826</u>	<u>573,590</u>	<u>837,248</u>	<u>3,862,912</u>	<u>140,953</u>	<u>224,419</u>	<u>72,255</u>	<u>201,726</u>	<u>99,352</u>	<u>9,144</u>	<u>348,251</u>	<u>40,386</u>	<u>62,318</u>	<u>207,995</u>	<u>929,418</u>	<u>394,595</u>	<u>18,570,181</u>	<u>92,311</u>	<u>163,652</u>	<u>29,297,983</u>
EQUIPMENT AND INTANGIBLE ASSETS																									
Equipment	1,383	20,859	3,714	1,380	54,405	16,915	458	22,406	33,352	3,030	2,500	9,337	5,654	5,028		3,400	5,489		410	2,102	2,318	48,015		22,099	264,254
Intangible Assets			8,919					150	595			475								50,404		9,756			70,299
Total	<u>1,383</u>	<u>20,859</u>	<u>12,633</u>	<u>1,380</u>	<u>54,405</u>	<u>16,915</u>	<u>458</u>	<u>22,556</u>	<u>33,947</u>	<u>3,030</u>	<u>2,500</u>	<u>9,812</u>	<u>5,654</u>	<u>5,028</u>		<u>3,400</u>	<u>5,489</u>		<u>410</u>	<u>52,506</u>	<u>2,318</u>	<u>48,015</u>		<u>31,855</u>	<u>334,553</u>
LOCAL ASSISTANCE																									
From State Sources						226,517			1,399,858																1,626,375
Total						<u>226,517</u>			<u>1,399,858</u>																<u>1,626,375</u>
GRANTS																									
From State Sources							71,250				5,680,232			2,987,463					90,000						8,828,945
From Federal Sources							1,134,610	2,107,156		10,521,863	5,029,854														18,793,483
From Other Sources							1,262,453																		1,262,453
Total							<u>2,468,313</u>	<u>2,107,156</u>		<u>10,521,863</u>	<u>10,710,086</u>			<u>2,987,463</u>					<u>90,000</u>						<u>28,884,881</u>
TRANSFERS																									
Accounting Entity Transfers						7,171					1,767,071		56,440	90,638							5,486,912				7,408,232
Mandatory Transfers																						4,200,337			4,200,337
Total						<u>7,171</u>					<u>1,767,071</u>		<u>56,440</u>	<u>90,638</u>							<u>5,486,912</u>				<u>11,608,569</u>
DEBT SERVICE																									
Installment Purchases																					1,499				166,653
Total																					<u>1,499</u>				<u>166,653</u>
TOTAL PROGRAM EXPENDITURES	<u>\$63,721</u>	<u>\$419,183</u>	<u>\$794,475</u>	<u>\$244,725</u>	<u>\$2,605,991</u>	<u>\$ 913,779</u>	<u>\$3,477,807</u>	<u>\$3,662,454</u>	<u>\$5,737,767</u>	<u>\$10,887,639</u>	<u>\$13,010,293</u>	<u>\$ 249,612</u>	<u>\$ 934,335</u>	<u>\$3,324,511</u>	<u>\$102,703</u>	<u>\$1,202,849</u>	<u>\$106,548</u>	<u>\$109,709</u>	<u>\$ 486,263</u>	<u>\$1,333,700</u>	<u>\$6,903,594</u>	<u>\$23,945,471</u>	<u>\$200,220</u>	<u>\$887,103</u>	<u>\$81,604,452</u>
GENERAL FUND																									
Budgeted		\$464,720					\$ 562,780	\$ 737,198			\$ 213,495	\$ 287,836	\$ 56,440	\$2,916,638		\$ 34,724	\$ 91,571		\$ 482,944				\$103,743	\$ 5,952,089	
Actual		419,183					426,655	725,991			187,027	249,612	56,440	2,915,980		29,704	72,641		435,851				100,816	5,619,900	
Unspent Budget Authority		<u>\$ 45,537</u>					<u>\$ 136,125</u>	<u>\$ 11,207</u>			<u>\$ 26,468</u>	<u>\$ 38,224</u>	<u>\$ 0</u>	<u>\$ 658</u>		<u>\$ 5,020</u>	<u>\$ 18,930</u>		<u>\$ 47,093</u>				<u>\$ 2,927</u>	<u>\$ 332,189</u>	
SPECIAL REVENUE FUND																									
Budgeted	\$42,784		\$837,431	\$287,448	\$2,022,143	\$1,																			

¹ See note 9 on page 32.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 32.

DEPARTMENT OF COMMERCE
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Public Safety Administrator	Weights & Measures Bureau	Financial Division	Milk Control Bureau	Professional & Occupational Licensing Bureau	Aeronautics Division	Transportation Division	Business Development Division	Montana Promotion Division	Housing Assistance Bureau	Community Development Bureau	Office of Research & Information Service	Local Government Services - Audit	Local Government Service - Systems	Local Government Assistance Administration	Building Codes Bureau	Indian Affairs Coordinator	Health Facilities Authority	Montana Science & Tech Alliance	Montana Board of Housing	Investments Division	Montana State Lottery	Board of Horse Racing	Director/ Management Services	Total
PERSONAL SERVICES																									
Salaries	\$45,477	\$226,743	\$431,411	\$145,680	\$ 617,257	\$247,246	\$ 355,903	\$ 437,131	\$ 313,522	\$ 167,445	\$ 245,624	\$127,606	\$ 590,731	\$ 106,362	\$ 76,485	\$ 658,438	\$ 66,754	\$ 41,312	\$ 120,458	\$ 260,357	\$ 786,309	\$ 739,698	\$ 84,015	\$557,004	\$ 7,448,968
Other Compensation			650	5,000	68,225	3,850					7,150					5,300		1,850	2,800	5,650	8,050	1,705	5,900		116,130
Employee Benefits	8,266	54,986	91,955	32,297	132,187	69,765	72,402	90,151	69,070	34,490	51,301	28,130	126,562	21,358	14,397	154,947	13,831	7,856	24,221	56,707	152,237	158,483	13,170	109,066	1,587,835
Total	53,743	281,729	524,016	182,977	817,669	320,861	428,305	527,282	382,592	201,935	304,075	155,736	717,293	127,720	90,882	818,685	80,585	51,018	147,479	322,714	946,596	899,886	103,085	666,070	9,152,933
OPERATING EXPENSES																									
Other Services	497	8,349	16,628	22,012	354,348	88,221	531,559	340,938	822,687	23,264	42,889	5,184	16,218	24,315	477	26,959	6,757	31,779	38,312	1,064,782	145,646	4,061,195	46,177	49,309	7,768,502
Supplies & Materials	20	17,586	4,712	2,406	25,296	29,964	6,137	32,172	26,362	5,143	5,623	2,207	9,458	3,697	27	29,098	815	1,177	6,581	6,581	16,459	65,426	8,982	13,563	319,492
Communications	1,157	9,075	10,622	7,041	107,156	25,613	11,569	75,873	2,312,900	16,031	17,953	6,690	16,063	5,520	1,253	32,385	7,685	5,177	13,740	22,253	46,482	852,260	6,683	18,424	3,629,605
Travel		28,718	86,173	26,993	158,847	23,293	50,316	118,477	117,400	5,660	33,115	289	96,762	23,468		55,068	19,679	10,971	32,602	13,006	26,369	41,706	35,607	13,853	1,019,112
Rent	1,247	8,709	11,506	8,221	52,286	14,005	13,412	88,793	23,790	10,370	16,233	10,067	21,632	7,035		14,879	6,434	1,922	15,840	29,781	68,336	82,466	5,211	21,967	534,142
Utilities		1,200			15,099					1,815			2,722	1,184							12,577				34,597
Repair & Maintenance	359	15,016	3,601	3,159	17,511	17,225	5,578	10,018	19,654	23,511	8,339	3,591	6,287	2,307		10,576	962	1,141	1,762	60,144	26,248	82,429	2,267	10,312	331,997
Other Expenses	4,697	30,686	57,772	24,363	861,602	42,937	54,779	108,080	82,734	35,666	97,037	18,056	83,425	34,193	7,943	161,694	9,725	10,269	23,832	38,508	97,676	10,322,017	20,021	13,492	12,241,204
Goods Purchased For Resale					14,204											5,140					569,965				589,309
Total	7,977	119,339	191,014	94,195	1,577,046	270,561	673,350	774,351	3,405,527	121,460	221,189	46,084	252,567	101,719	10,440	335,799	52,057	62,436	132,669	1,235,055	427,216	16,090,041	124,948	140,920	26,467,960
EQUIPMENT AND INTANGIBLE ASSETS																									
Equipment		8,500	28,994	9,286	7,151	8,912	6,439	20,305	17,266	10,918	6,315	3,200	9,339			8,225			5,805	13,169	13,449	66,033	410	13,383	257,099
Intangible Assets				1,007				1,500																	2,507
Total		8,500	28,994	10,293	7,151	8,912	6,439	21,805	17,266	10,918	6,315	3,200	9,339			8,225			5,805	13,169	13,449	66,033	410	13,383	259,606
LOCAL ASSISTANCE																									
From State Sources						234,528			1,356,087																1,590,615
Total						234,528			1,356,087																1,590,615
GRANTS																									
From State Sources						8,000	71,250				1,288,782			2,736,506					115,000						4,219,538
From Federal Sources							703,801	1,303,768		10,356,637	3,815,649														16,179,855
From Other Sources							982,054																		982,054
Total						8,000	1,757,105	1,303,768		10,356,637	5,104,431			2,736,506					115,000						21,381,447
TRANSFERS																									
Accounting Entity Transfers						11,340	20,349				1,032,929		51,210	88,340							5,435,438				6,639,606
Mandatory Transfers																						4,168,858			4,168,858
Total						11,340	20,349				1,032,929		51,210	88,340							5,435,438	4,168,858			10,808,464
DEBT SERVICE																									
Installment Purchases																					1,499		189,993		191,492
Total																					1,499	189,993			191,492
TOTAL PROGRAM EXPENDITURES	\$61,720	\$409,568	\$744,024	\$287,465	\$2,401,866	\$854,202	\$2,885,548	\$2,627,206	\$5,161,472	\$10,690,950	\$ 6,668,939	\$205,020	\$1,030,409	\$3,054,285	\$101,322	\$1,162,709	\$132,642	\$113,454	\$ 400,953	\$1,572,437	\$6,822,699	\$21,414,811	\$228,443	\$820,373	\$69,852,517
GENERAL FUND																									
Budgeted		\$457,302																							
Actual		409,568					\$ 628,834	\$ 746,140			\$ 203,388	\$257,192	\$ 51,210	\$2,688,340		\$ 35,697	\$ 97,976		\$ 465,514				\$102,385	\$ 5,733,978	
Unspent Budget Authority		\$ 47,734					466,013	694,467			183,560	205,020	51,210	2,686,409		34,197	94,577		400,953				95,064	5,321,038	
							\$ 162,821	\$ 51,673			\$ 19,828	\$ 52,172	\$ 0	\$ 1,931		\$ 1,500	\$ 3,399		\$ 64,561				\$ 7,321	\$ 412,940	
SPECIAL REVENUE FUND																									
Budgeted	\$13,135		\$822,261	\$291,309	\$2,039,506	\$977,628	\$3,299,990	\$2,114,601	\$5,672,643	\$12,395,233	\$13,137,991												\$320,276	\$44,789,651	
Actual	0		744,024	287,465	1,696,432	802,574	1,957,539	1,932,739	5,161,472	10,690,950	6,485,379			203,270		1,232,808	38,065		\$2,200,000				228,443	31,356,864	

¹ See note 9 on page 32.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 27 through 32.

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1991

1. **Summary of Significant Accounting Policies**

Basis of Accounting

The Department of Commerce uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable.

The department uses accrual basis accounting for Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned if measurable; they record expenses in the period incurred, if measurable.

Expenditures and expenses may include entire budgeted service contracts even though the department received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the department to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The department uses the following funds:

Notes to the Financial Schedules

Governmental Funds

General - accounts for all financial resources, except those required to be accounted for in another fund.

Special Revenue - to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund type. This activity includes professional licensing boards, as well as other boards administratively attached to the department, airport loans, local government block grant (coal tax money), county land planning, local impact, banking industry regulation, building codes division, aeronautics division, federal financial assistance, and economic development activities such as tourism and business promotion.

Debt Service Fund - to account for accumulation of resources for, and the payment of, long-term debt principal and interest. The department uses this fund type to account for tax moneys which are used to back bonds or to make direct or guaranteed loans to areas affected by coal mining.

Proprietary Funds

Enterprise Funds - to account for operations (a) that are financed and operated in a manner similar to private business enterprises -- where the intent of the governing body is that, on a continuing basis, the enterprise be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Enterprise Funds at the department include operations of the Board of Housing, the West Yellowstone Airport, the Health Facilities Authority, the Office of Developmental Finance, the Montana Lottery, and the Montana Science and Technology Alliance.

Internal Service Funds - to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. The Internal Service Fund at the department includes operations of the Director's Office, Local Government Services, the Management Services Division, the Investments Division, Business Regulation

Notes to the Financial Schedules

and Licensing Support, and Professional and Occupational Licensing Administration.

Trust and Agency Funds - to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Expendable Trust Funds, Nonexpendable Trust Funds, and Agency Funds.

The Expendable Trust Fund - includes settlement money from the Burlington Northern lawsuit. The fund was established as a result of a trust agreement between the department and Burlington Northern.

The Nonexpendable Trust Fund - includes the In-State Investment Fund (coal tax moneys), Coal Tax Loan Loss Reserve, and the BN - Geraldine Settlement.

The Agency Fund - includes a consumer affairs account and receipts from horse racing exotic wagering. This fund also includes the Short-Term Investment Pool and the Montana Common Stock Pool administered by the Board of Investments.

2. Annual and Sick Leave

Employees at the department accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the accompanying financial schedules. Expenditures for termination pay currently are absorbed in the annual operating costs of the department. At June 30, 1991, the department had a liability of \$1,091,155 for annual and sick leave.

3. General Fund Balance

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules the General Fund beginning and ending fund balance will always be zero.

Notes to the Financial Schedules

4. Nonbudgeted Activity

The department records nonbudgeted activity in its Debt Service, Enterprise, and Nonexpendable Trust fund accounts. The department does not establish budgets or estimates due to the difficulties involved in anticipating the level of activity. The Debt Service and part of the Nonexpendable Trust activity involve coal tax revenues and payments on bonds serviced by those revenues. The Nonexpendable Trust activity also includes transfers of investment income from the Education Trust Fund to the Office of Public Instruction. The Board of Housing and the Office of Developmental Finance are bonding activities and account for the material portion of the Enterprise nonbudgeted activity.

5. Direct Entries to Fund Balance

Special Revenue Fund - the department distributed the Hard Rock Mining fund balance to local governments in fiscal year 1990-91 as required by state law.

Nonexpendable Trust Fund - The 1989 Legislature, during the June 1989 Special Session, dissolved the Education Trust Fund via House Bill 28, which was signed into law in August 1989. The department then transferred the final balance of approximately \$15.5 million, of which \$14.4 million was a direct entry to fund balance, to the State Equalization Aid account at the Office of Public Instruction during fiscal year 1989-90.

6. Long-Term Debt

The department's bonding activities include the Board of Housing (BOH), the Office of Developmental Finance (ODF), and the Montana Health Facilities Authority (MHFA). The MHFA issues no-commitment debt. These bonds are payable solely from loan repayments made by health institutions and from funds created by the indentures and investment earnings. The bonds do not constitute a debt of the department or the state of Montana and are not recorded on the accounting records. The BOH and ODF together had recorded current and long-term notes and bonds payable of \$612,384,425 and long-term notes and receivables of \$487,626,484 at June 30, 1991. These assets and liabilities were audited separately and a separate report is available from the Office of the Legislative Auditor.

7. Agency Fund Activity

Department of Commerce had the following balances recorded in its Agency Fund.

	<u>June 30, 1990</u>	<u>June 30, 1991</u>
<u>Assets</u>		
Cash	\$ 585,224	\$ 3,391,372
Receivables	3,832,036	3,149,661
Other Investments	836,248,490	1,087,152,211
Transfers to STIP-Principal	48,140,000	37,347,000
Short-Term Securities on Loan	<u>25,000,000</u>	<u>10,000,000</u>
Total Assets	<u>\$913,805,750</u>	<u>\$1,141,040,244</u>
<u>Liabilities</u>		
Payables	\$ 7,134,260	\$ 13,305,465
Allowance for Realized Gains & Losses	71,708,522	89,253,176
Property Held in Trust	2,996	(21,994)
Accountability to STIP		
Participants-STIP Units	502,700,800	549,003,500
Accountability to Montcomp		
Participants	174,874,072	260,364,097
Due to Local Governments	<u>157,385,100</u>	<u>229,136,000</u>
Total Liabilities	<u>\$913,805,750</u>	<u>\$1,141,040,244</u>

Of the assets and liabilities presented above, \$913,737,565 in fiscal year 1989-90 and \$1,141,037,095 in fiscal year 1990-91 is attributable to the Board of Investments Short-Term Investment Pool and the Montana Common Stock Pool. This activity is audited separately by the Office of the Legislative Auditor.

8. Revenue Estimates vs. Actual Revenue

Federal Revenues - The difference between estimated revenues and actual revenues collected is due primarily to continuing revenue estimates for Community Development Block Grants which have carried forward from fiscal years 1987-88, 1988-89, and 1989-90. Another contributing factor is the department received no revenue against some estimates since projects do not always begin at the time originally anticipated.

Sale of Documents and Merchandise Revenues - Fiscal year 1989-90 Lottery actual revenues exceeded revenue estimates with the start up of on-line lotto sales. The department

Notes to the Financial Schedules

estimated a further increase in sales during fiscal year 1990-91. Actual revenue collections during fiscal year 1990-91 did not, however, reach the department's estimate.

9. Program Budgets vs. Actual Expenditures

Transportation Division Program - The Special Revenue Fund budget includes authority in both fiscal years for projects funded but not significantly in progress until the subsequent fiscal year such as the Transloading Facility in Shelby. Appropriation authority was approved in fiscal year 1989-90, but the project was not substantially underway until fiscal year 1990-91.

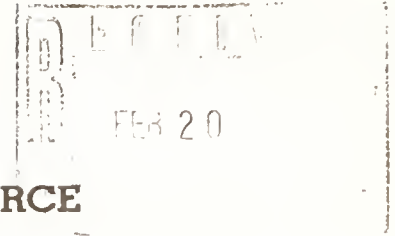
The Expendable Trust Fund budget for both fiscal years includes a fiscal year 1985-86 continuing appropriation for the Burlington Northern Settlement. The moneys in this account are used to help finance operations of the Central Montana Railroad.

Community Development Bureau Program - Special Revenue Fund budgets for fiscal year 1989-90 include continuing appropriations for Hard Rock Mining grants and mitigation. The majority of these funds were spent in fiscal year 1990-91.

Montana Science and Technology Alliance Program - The fiscal year 1989-90 and 1990-91 Special Revenue Fund budget for this program included an appropriation of \$2 million for a medical research facility. This appropriation was set up as a state match on a federal grant. The federal grant and subsequent contract to build the facility were not finalized until fiscal year 1991-92.

10. Subsequent Event

The department moved all financial activity for the Local Government Services program from the Internal Service Fund to the Enterprise Fund. The change was made July 1, 1991 to comply with section 2-7-518, MCA.



MONTANA DEPARTMENT OF COMMERCE

1424 9TH AVENUE
HELENA, MONTANA 59620-0501
(406) 444-3494 FAX: (406) 444-2903

February 11, 1992

Mr. Scott A. Seacat
Legislative Auditor
State Capitol
Helena, MT 59620

Dear Mr. Seacat:

Enclosed is our response to the financial-compliance audit of the Department of Commerce for the fiscal years 1990 and 1991.

Considering the size and diversity of the department, we are proud and very pleased at the small number of recommendations, although we will strive to implement them to the best of our ability.

Thank you for the opportunity to respond.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "C. Brooke".

Charles A. Brooke, Director

DEPARTMENT OF COMMERCE
RESPONSES TO AUDIT RECOMMENDATIONS

RECOMMENDATION #1

We recommend the department:

- A. Record all operating plan amendments on SBAS.
- B. Spend in accordance with operating plans recorded on SBAS as required by state law.

RESPONSE

The department concurs with the recommendation. As stated in the report, year end expenditures necessitate operating plan amendments and adjustments to SBAS budgets. The department will attempt to ensure that all operating budget changes are adjusted accordingly on SBAS by the fiscal year cutoff date.

RECOMMENDATION #2

We recommend the department continue working with the licensing boards to set fees commensurate with costs in accordance with state law.

RESPONSE

The department concurs with the recommendation.

RECOMMENDATION #3

We recommend the department prepare and distribute a county collection manual as required by state law.

RESPONSE

The department conditionally concurs with the recommendation. While the department continues to support the purpose of the legislation which the Legislative Audit Committee sponsored in 1987, the Department has not been able to secure the necessary funding to comply. The department will again, for the fourth time, submit a budget request for general fund resources to adequately implement the law. The three previous requests for such funding have been denied.

RECOMMENDATION #4

We recommend the department:

- A. Complete reviews as required by state law.
- B. Evaluate the need for statutory revision of review requirements.

RESPONSE

The department concurs with the recommendation.

All referenced statutes regarding local governments will be examined prior to the convening of the 1993 Legislature and where appropriate, housekeeping amendments will be proposed for consideration.

We are presently reviewing staffing and statutory requirements related to annual examinations of consumer loan offices to enable the Financial Division to comply. Through Executive Order, the Governor has created a "Banking Code Advisory Council" which is charged with reviewing the statutes related to financial institutions (Title 32). This issue will be addressed by the Council and appropriate recommendations will be made for the Governor's and legislative consideration.

Regarding examinations of all trusts, costs of compliance with the law are unreasonable, both for the Financial Division and for the affected trust companies. We will seek to change the law at the next legislative session. The Banking Code Advisory Council will address this issue and appropriate recommendations will be made for the Governor's and legislative consideration.

RECOMMENDATION #5

We recommend the department:

- A. Develop a comprehensive plan for the physical development of the state as required by state law.
- B. Consider seeking legislation to amend the state law.

RESPONSE

The department conditionally concurs. The audit report states that: "the department between 1967 and 1981, received federal funding to develop a comprehensive state plan for the physical development, but did not complete such a task." It is a fact that the department's predecessor agency did not develop such a state plan. It is not true that these federal funds were mandated for such a purpose. Funds for the "HUD 701 Planning Assistance Program" were provided to and used by the state for many planning purposes among which were: providing financial and technical assistance to local governments in their development of comprehensive plans, supporting the State Commission on Local Government, supporting the planning process for the Executive Reorganization, and supporting the planning for the Constitutional Convention. Our contractual obligations with HUD 701 clearly did not commit these funds to a state physical development plan. Past federal and state audits for this period ('67 - 81) and of this program (HUD 701), contain no such implications as are made by the OLA on this issue.

The consistent statutory definition and subsequent executive policy for the issue of land planning and regulation in Montana has been, for nearly forty years, the sole responsibility of local governments.

As a result of this unique compliance issue, the department will seek legislative approval, in the 1993 Legislature, to amend and clarify the statute in question.

RECOMMENDATION #6

We recommend the department draft and adopt credit union insurance rules as required by state law.

RESPONSE

The department concurs with the recommendation and is presently gathering the information necessary to set a hearing date and adopt appropriate rules. The Banking Code Advisory Council will address this issue and appropriate recommendations will be made for the Governor's and legislative consideration.

RECOMMENDATION #7

We recommend the department improve procedures to ensure the financial activity recorded on SBAS is in accordance with state law and policy.

RESPONSE

The department concurs with the recommendation. The department has reviewed its procedures and will ensure compliance.

RECOMMENDATION #8

We recommend the department improve internal controls designed to prevent duplicate payments.

RESPONSE

The department concurs with the recommendation. The problem of duplicate payments is primarily due to:

- 1) More than one approved statement being submitted for payment to Management Services.
- 2) An approved invoice and approved billing statement being submitted within a few days of each other.

The department recognizes the problem and has already changed the method used to check for duplicate payments. A computer modification has been implemented which, among other things, allows for improved verification of previous payments of invoices. The department has also required strengthening of the review process at the program level.

RECOMMENDATION #9

We recommend the department:

- A. Develop procedures to ensure federal reports contain accurate information.
- B. Submit federal reports in a timely manner.

RESPONSE

The department concurs with the recommendation.

In regard to the PILT report and CDBG reports, the department has reviewed the appropriate timing and reporting procedures and has installed additional cross checking activities to prevent a reoccurrence of these concerns.

In regard to the indirect cost plan, the department had already strengthened its review process prior to the start of the audit. Omission of expenditures from one source when calculating the indirect cost plan was caused by a

misinterpretation of the source of Exxon Oil funds. The funds, which are from a private source, were funnelled through a federal agency (DOT) and through a state agency, thereby changing the identity of the funding source for accounting purposes.

